FILED
8-15-16
04:59 PM

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Approval of Contracts Resulting from Its 2014 Energy Storage Request for Offers (ES RFO)	A.15-12-003 (Filed December 1, 2015)
Application of Pacific Gas and Electric Company for Approval of Agreements Resulting from Its 2014-2015 Energy Storage Solicitation and Related Cost Recovery (U39E)	A.15-12-004 (Filed December 1, 2015)

REPLY OF THE ALLIANCE FOR RETAIL ENERGY MARKETS AND DIRECT ACCESS CUSTOMER COALITION TO COMMENTS ON PROPOSED DECISION

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August 15, 2016

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The Alliance for Retail Energy Markets[1] ("AReM") and Direct Access Customer Coalition[2] ("DACC") respectfully submit this reply to comments filed by parties on August 8, 2016, regarding the *Decision Approving Energy Storage Contracts and Providing Guidance on Calculating Above-Market Costs for Storage* ("PD"), which was issued by Administrative Law Judge Michelle Cooke on July 20, 2016. AReM and DACC focus their reply on points raised in comments regarding the PD's adoption of the "Joint IOU Protocol" proposed by the investor-owned utilities ("IOUs") for calculating the Power Charge Indifference Adjustment ("PCIA") for energy storage[3] and the PD's rejection of the alternate proposal submitted jointly by direct access ("DA") and Community Choice Aggregation ("CCA") parties ("CCA-DA Alternate").[4] The Joint IOU Protocol proposed no change to the current PCIA calculation to account for storage,

[1] AReM is a California mutual benefit corporation formed by Electric Service Providers ("ESPs") that are active in California's Direct Access retail electric supply market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.

[2] DACC is a regulatory advocacy group comprised of educational, governmental, commercial and industrial customers that utilize direct access for all or a portion of their electrical energy requirements. In the aggregate, DACC member companies represent over 1,900 MW of demand that is met by both direct access and bundled utility service and about 11,500 GWH of statewide annual usage.

[3] PD, Conclusion of Law 8 and Ordering Paragraph 6.

[4] PD, p. 22.

whereas the CCA-DA Alternate proposed a Storage Adder[5] in the market price benchmark of the PCIA calculation, similar to the "Green Adder," which was approved by the Commission in Decision ("D.") 11-12-018 to address renewable procurement by the IOUs.[6]

I. THE STORAGE ADDER IS SUPERIOR TO THE JOINT IOU PROTOCOL AND SHOULD BE ADOPTED.

Shell Energy North America (US), LP ("Shell") and the CCA Parties[7] both argue convincingly that the Commission's previous determinations and the record in this proceeding demonstrate that the CCA-DA Storage Adder is superior to the Joint IOU Protocol and thus should be adopted.[8] Shell notes that the Commission previously determined that the existing PCIA calculation – the same one the PD adopts – was "not suited" to determine the above market costs for storage.[9] In addition, Shell[10] and CCA Parties[11] both explain that storage is not "generation" and therefore cannot be treated as just another generation resource in the PCIA calculation – as the Joint IOU Protocol does. As Shell points out: "If 'energy' and 'capacity' were the only attributes of energy storage, an IOU would not purchase energy storage."[12]

Both Shell[13] and CCA Parties[14] cite the PD's apparent reliance on a concern raised by The Utility Reform Network ("TURN") regarding possible negative cash flows.[15] We concur with the comments of the CCA Parties that TURN "did not explain how such a scenario would develop, or how likely it is that such an event would occur," and did not provide any evidence to substantiate its claim.[16]

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[5] PD, p. 18.

[6] D.11-12-018, Ordering Paragraph 2, p. 113.

[7] The CCA Parties are Marin Clean Energy, Sonoma Clean Power Authority, City of Lancaster, and County of Los Angeles.

[8] Shell, pp. 3-6, CCA Parties, pp. 2-4.

[9] Shell, p. 4, citing D.14-10-045, p. 45.

[10] Shell, p. 4.

[11] CCA Parties, p. 4.

[12] Shell, p. 3.

[13] Shell, p. 5.

[14] CCA Parties, p. 4.

[15] PD, p. 22.

[16] CCA Parties, p. 4.

In fact, there is no record in this proceeding to support the statement that "negative cash flows" could occur as a result of the use of a Storage Adder. TURN simply asserted this statement, without being subject to the scrutiny of other parties. Furthermore, if the issue of "negative cash flows" is the same as the possibility that the PCIA could be negative, then it is already addressed in prior decisions concerning the PCIA (*e.g.*, D.07-05-005).

While the Commission may have reasons to reject, in the short term, the Storage Adder, TURN's negative cash flow argument should not be used as rationale to support that determination. Accordingly, AReM and DACC respectfully request that the following sentence be **deleted** from the PD: "As stated by TURN, the CCA/DA parties' proposed methodology for calculating the storage adder creates the potential for storage assets to generate cash flows that do not equal to the costs of such assets, which would violate the 'customer indifference' principle by allocating any negative cash flows to bundled customers."[17]

AReM and DACC also note that the PD lists an additional reason for not adopting the Storage Adder at this time, which it refers to as a finding that additional values of storage "do not uniquely accrue to bundled customers."[18] AReM and DACC do not understand this statement, know of nothing in the record that supports it, and recommend that it be **deleted**.

Finally, AReM and DACC point out that they submitted Opening and Reply Briefs[19] in the record of this proceeding, which provided extensive support for the CCA-DA Storage Adder, as well as detailed rebuttal of the positions of the parties supporting the Joint IOU Protocol. The PD ignores this record evidence. As AReM and DACC explained in briefs, other than the three IOUs, no party supported the Joint IOU Protocol as proposed.[20] Yet, that is the proposal the PD adopts, with only a minor "modification,"[21] which all three IOUs claim is not a modification at all, but a "clarification" of the calculation.[22] The record simply does not support this outcome.

In short, AReM and DACC agree with Shell and CCA Parties that the PD has failed to justify (a) its divergence from previous Commission findings that the current PCIA calculation is

[17] PD, p. 22.

[18] *Ibid.*

[19] See, AReM-DACC Opening Brief, May 25, 2016, pp. 7-11 and AReM-DACC Reply Brief, June 8, 2016, pp. 2-8.

[20] AReM-DACC Reply Brief, pp. 2-3.

[21] PD, p. 23, Conclusion of Law 7, and Ordering Paragraph 5.

[22] PG&E, p. 7; SCE, p. 3; SDG&E, p. 1.

"not suited" for storage and (b) its adoption of the Joint IOU Protocol based on the evidence in the record. Thus, AReM and DACC join Shell and CCA Parties in requesting that the PD be modified to adopt the CCA-DA Storage Adder to properly account for the value of energy storage in the market price benchmark used in the PCIA calculation and comply with previous Commission determinations.

II. ANCILLARY SERVICES ARE NOT ACCOUNTED FOR IN THE PCIA CALCULATION.

CCA Parties correctly note that the Joint IOU Protocol does not account for revenues from ancillary services, even though the IOUs have pointed to the value of ancillary services from their storage projects to justify approval of their applications.[23] The Commission has also lauded the value of ancillary services provided by storage to authorize additional procurement.[24] Even the PD admits that "storage assets may be able to generate additional value in the near future as greater clarity and guidance on market rules are developed, particularly around multi-use applications."[25]

The Commission cannot have it both ways. If storage does indeed provide all the value attributed to it, then that value must be reflected in the PCIA calculation to arrive at a true calculation of stranded costs. Otherwise, DA and CCA customers bear a disproportionate burden, thereby violating the "indifference principle." Accordingly, AReM and DACC agree with CCA Parties that the Commission should commit to re-evaluate the PCIA calculation at the earliest opportunity to determine how to account for ancillary services.

III. AReM AND DACC SUPPORT REVISTING THE PCIA CALCULATION FOR STORAGE BEFORE 2020.

The PD rejects the Storage Adder "at this time," but says the Commission will not revisit the calculation before 2020.[26] Thus, DA and CCA parties are faced with the prospect of at least four years of inaccurate and likely excessive PCIA charges, thereby harming the competitive

[23] CCA Parties, p. 5.

[24] See, for example, Resolution E-4791, May 26, 2016, p. 14, approving storage to address reliability issues from the Aliso Canyon outage: "Moreover, storage systems are not only providing electricity, these systems can provide other grid optimization services."

[25] PD, p. 22.

[26] *Ibid.*

retail market. AReM and DACC agree with the CCA Parties' recommendation that the Commission should revisit the PCIA calculation before 2020 as data become available, such as a third-party index for storage.[27]

IV. CONCLUSION

AReM and DACC respectfully request that the PD be modified to:

1. Adopt the CCA-DA Storage Adder in the PCIA calculation to properly account for the value of energy storage in the market price benchmark used in the PCIA calculation and comply with previous Commission determinations.
2. Delete references to TURN's negative cash flow argument and values not accruing "uniquely to bundled customers," because they are unsupported by the record.
3. Commit to re-evaluate the PCIA calculation at the earliest opportunity to determine how to account for ancillary services.
4. Revisit the PCIA calculation before 2020 as data become available.

Respectfully submitted,

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[27] CCA Parties, p. 7.